Weekly Market Insights

December 3, 2018

George Herbert Walker Bush, Success at the G-20 and the Fed Calms the Market

One of the true gentleman public servants passed away this weekend!

Of course, I am referring to President Bush. There is nothing I can write that hasn't been written this weekend. We can only hope, against current odds, that he is not the last President to believe it is an honor and a grave responsibility to represent all Americans.

The equity markets rallied strongly this past week. If a man from Mars was following the markets lately, he would believe the American equity investor swayed between being "Chicken Little" and "Alfred E. Neuman." Of course there is more to it than that, but it does make one wonder. So what happened this past week to so dramatically change the views of investors? In our opinion, it was mostly the relaxation of two great concerns of market participants. Will the Fed be too aggressive in their concern about the economy over-heating and tighten monetary policy too much and too soon, or will the trade war escalate and kill global growth? Either policy mistake spells recession. Markets got partial answers. Happily, they were answers investors wanted to hear.

First, the Fed appeared to have taken a dovish line. I'm not sure they said a lot different from what they have said all along. They will keep a close eye on economic statistics and if they appear to be weakening, they will hesitate in tightening. We have written many times that no Fed[1] wants to drive an economy into recession. This was clearly music to investors' ears.

A 'new NAFTA' was signed. At first blush, it doesn't appear to be particularly dramatic, but it is a big step forward and takes some weight off investors' shoulders. An interesting aside, at the signing/announcement ceremony, Mr. Trudeau did not hold up the document as he was urged to do. Clearly, all are not thrilled. Following that signing, Mr. Kudlow, Director of the President's National Economic Council, gave hints that Mr. Trump may be inclined to come to some intermediate understanding with Mr. Xi about tariffs. This, of course, was pleasing to investors and the markets reflected that relief. The weekend proved Mr. Kudlow correct. This is very interesting, because the trade advisor Mr. Trump chose to accompany him to the private dinner he had with Mr. Xi was none other than Peter Navarro, the leading White House proponent for strong trade barriers between the U.S. and China. The agreement the two, Trump and Xi, appear to have arrived at gives the negotiations more time and frees up some concern for another quarter. We have argued all along that after much posturing, an agreement will be reached. This, of course, is nowhere near an agreement but it is movement in the right direction. Just to reiterate our view, both countries have far too much to lose in a trade war.

Although global economies have shown some weakness, this is not unusual during a business cycle, particularly in the last, third quarter. No one really knows of course, but we believe neither the U.S. economy is close to a recession, nor is the U.S. equity market entering a bear phase. Investors should go back to basics and look at their portfolios and if they have gains that have put their portfolios out of balance, e.g. if the prolonged equity bull run has made your portfolio have too high a percent in equities, then take some profits and rebalance. If Investors are concerned that they may miss out on some gains, then consider those missed gains an insurance premium paid to protect earlier gains.

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[1]Except perhaps the Volcker Fed when trying to combat double digit inflation.